

MEMORANDUM FOR: Director of Central Intelligence
THROUGH: Acting Deputy Director/Intelligence
SUBJECT: Comment on July 1958 Fortune Editorial,
"The Russian Recession"

1. This memorandum is for information only. It is in response to your request of yesterday for comment on the subject editorial. Fortune makes four key assertions:

- a. Soviet GNP is scarcely growing at all; industrial production increased only about 6 percent in 1957 and the rate is probably still falling.
- b. Industrial labor productivity in the USSR has fallen from 6 percent a year in the 1950-55 period to 3 percent a year today.
- c. Soviet agriculture is having a second bad year; the virgin lands gamble has been a disastrous failure.
- d. State investment in non-housing facilities grew 1 percent in 1957 and the planned rate of increase for 1958 was only 4 percent; further these figures are in rubles which must be adjusted downward "to allow for the recent inflation in the USSR."

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a. Our best estimates of Soviet economic development, keyed to Fortune's four assertions are:

a. Because of a decline in agricultural output, Soviet GNP increased only 6 percent in 1957, and our preliminary estimate for 1958 is for an increase of 7 to 8 percent. The DRI index of industrial production shows an annual rate of increase of 8 to 10 percent for 1956 and 1957. We have not yet made an estimate for 1958. The 1955 goals recently announced by the Soviets for key commodities imply a future rate of growth of slightly better than 10 percent annually.

b. It is true that Soviet industrial labor productivity has not maintained the annual rates of increase achieved in the 1950-55 period (6.5 to 7.4 percent). However, productivity increased 5.8 percent in 1957, and should at least maintain this rate in 1958. This is far above Fortune's 3 percent estimated for 1958.

c. It is not correct to say that Soviet agriculture is having its second successive bad year or that the virgin lands gamble has been a disastrous failure. The 1957 harvest did not equal the record harvest of 1956, but it was a thoroughly respectable one. Sugar beet output was at an

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all time high and grain output was as large as in any postwar year except 1956. As of now, we expect that the 1958 harvest will be greater than the one in 1957. Although bad years in the new lands are expected, even by the Soviet leaders, its output has made significant contributions to Soviet grain supplies. The new lands accounted for more than 20 percent of the Soviet grain harvest in 1956 and almost 15 percent in 1957. In addition, it has tended to even out year-to-year fluctuations in the size of the harvest.

d. Soviet state investment in non-housing facilities grew 6.7 percent in 1957 compared with 1956 (not 8 percent as Fortune claimed). In 1958, we estimate an increase of 7.9 percent over 1957 (not 4 percent as Fortune estimates).

We are unaware of "recent inflation in the USSR" which would require downward adjustment of investment data.

3. In summary, the Fortune article is a gross distortion of recent economic trends in the Soviet Union. Informal contact with Demitri Shimkin, to whom Fortune attributes their estimates, reveals his non-agreement with the article's conclusions.

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Research and Reports